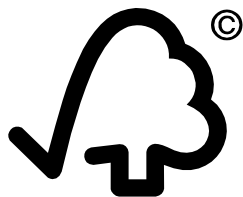


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SmartWood

Practical conservation through certified forestry

Forest Management Group Manager

2007 Area Expansion audit Report for:

**BRINKMAN Y ASOCIADOS
REFORESTADORES DE CENTRO AMERICA,
S.A.
(BARCA S.A.)**

in

Panama, Darien, Veraguas y Chiriqui,
provincias of the Republic of Panama

Certificate code:	SW-FM/CoC-152
Auditors:	Hugo Álvarez and Milciades Samaniego
Audit Dates:	August 27 - 31, 2007
Report Finalized:	January 15, 2008
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TABLE OF CONTENTS

1. INTRODUCTION	3
2. AUDIT FINDINGS AND RESULTS	3
2.1. AUDIT CONCLUSION	3
2.2. CHANGES IN THE FOREST MANAGEMENT OF THE FME	4
2.3. STAKEHOLDER ISSUES	8
2.4. CONFORMANCE WITH APPLICABLE CORRECTIVE ACTION REQUESTS	9
2.5. NEW CORRECTIVE ACTIONS ISSUED AS A RESULT OF THIS AUDIT	9
2.6. AUDIT OBSERVATIONS	10
3. AUDIT PROCESS	11
3.1. AUDITORS AND QUALIFICATIONS:	11
3.2. AUDIT SCHEDULE	11
3.3. SAMPLING METHODOLOGY:	12
3.4. STAKEHOLDER CONSULTATION PROCESS	13
3.5. CHANGES TO CERTIFICATION STANDARDS	13
APPENDIX I: List of visited sites (confidential)	14
APPENDIX II: List of stakeholders consulted (confidential)	15
APPENDIX III: Forest management standard conformance (confidential)	17
APPENDIX IV: Chain of Custody Conformance (confidential)	25
APPENDIX V: FSC Annual Audit Reporting Form:	27
APPENDIX VI: SmartWood Database Update Form	30
APPENDIX VII: Group management conformance checklist (confidential)	31
APPENDIX VIII: Bibliographic reference	35
APPENDIX IX: Total Certified Area (Costa Rica + Panamá)	36

1. INTRODUCTION

The purpose of this report is to document the conformance of the forest operations managed by Brinkman y Asociados Reforestadores de Centro América, S.A. (BARCA S.A.), as a Group Resource Manager in Panama, hereafter referred to as Forest Management Enterprise (FME). The report presents the findings of SmartWood auditors who have evaluated company systems and performance against FSC forest management standards and policies. Section 2 of this report provides the audit conclusions and any necessary follow-up actions by the company through corrective action requests.

SmartWood audit reports include information which will become public information. Sections 1-3 will be posted on SmartWood's website according to FSC requirements. All appendices will remain confidential.

Dispute resolution: If SmartWood clients encounter organizations or individuals having concerns or comments about Rainforest Alliance / SmartWood and our services, these parties are strongly encouraged to contact SmartWood regional or Headquarters offices directly (see contact information on report cover). Formal complaints or concerns should be sent in writing.

2. AUDIT FINDINGS AND RESULTS

2.1. Audit conclusion

Based on Company's conformance with FSC and SmartWood requirements, the audit team makes the following recommendation:	
<input checked="" type="checkbox"/>	Certification requirements <u>met</u>, certificate maintenance recommended Upon acceptance of CAR(s) issued below
<input type="checkbox"/>	Certification requirements <u>not met</u>: Conformance with Major CAR(s) required
Additional comments:	<p>Barca S.A. has wide technical experience in managing forest plantations of exotic and native species in Costa Rica. Since 2001 BARCA obtained for the first time the SmartWood/FSC forest certificate as "Group Resource Manager" under the code SW-FM/COC-152; and in 2006 obtained the certificate for a second period. Up to this moment BARCA has a total certified area in Costa Rica of 2,271.92 hectares, some of it is of its own, and some of other owners, members of the group certification.</p> <p>This time the SmartWood's auditor team concludes that Barca S.A. is managing in a responsible and effective way the Teak plantations (2,717.88 hectares) of the company Forests For Friends Panama, Inc. (FFF), and recommends including it as a new member of the certified group managed by Barca S.A.</p> <p>With the expansion of this plantation projects in Panamá, the total certified area of Barca S.A. in Costa Rica and Panamá will be 4,989.80 hectares.</p>
Issues identified as	During the present audit, the SmartWood auditor team did not find

controversial or hard to evaluate.	controversial issues or difficult to asses.
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2.2. Changes in the forest management of the FME

A. Background:

According to the recent history, the fincas currently under the property of Forests For Friends Panama, Inc. (FFF), were previously the property of the company Prime Forestry Panamá S.A., which was legally dissolved and FFF acquired the property rights of the lands at the end of 2006. Prime Forestry was FSC certified since 2003 under the certificate SW-FM/COC-239 (valid from 02/01/2003 until 05/19/2006)¹. SmartWood terminated this certificate in May 2006, after the deadline of a Major CAR was over (Major CAR 11-06), which Prime Forestry did not meet, even when SmartWood insisted several times about it.

In September 2005, before the finalization of the certificate of Prime Forestry Panama S.A., SmartWood and the FSC jointly audited and found some non-conformances focused on: the lack of establishment of some buffer zones in riparian and creek areas, the lack of preparation of a public summary of the management plan and publishing of the results from the monitoring of the growth in the web site, the lack of consultation to determine the presence of High Conservation Value Forests (HCVF), the use of chemicals prohibited by the FSC, the inappropriate disposal of chemical containers, the poor meeting of the workers' rights and the lack of procedures to keep the chain of custody.

Given the conditions of change in the administration of those fincas, now property of FFF and managed by Barca S.A., the CARs issued to Prime Forestry Panama in 2005 were not specifically reviewed and since Prime Forestry does not exist anymore; however, it has to be clear that the forest management issues in the fincas of FFF were fully assessed according to the meeting level of all criteria of the Interim Standards for Assessing Forest Management in Panama –version of August 2007, focusing carefully on the weaknesses found in the previous administration.

During 2007, FFF and Barca S.A. have begun a process to change the image that Prime Forestry Panama S.A. left in the neighboring communities to the project. The main goal is to promote the message of the new relationship between the companies; among the actions taken are: the placement of signs indicating the new ownership of FFF (instead of Prime Forestry), and the management of Barca S.A. (see picture below). Also, there have been donations to some local schools.



¹ Originally, the certificate was issued by SmartWood to the company Kentwood Commercial Corporation, a subsidiary of Prime Forestry Switzerland, with headquarters in Switzerland. The certificate changed to Prime Forestry Panama in March 2003.

B. Legal Details:

Forests For Friends Panama, Inc. was created in May 7th, 2007 and is registered in the business section of the Public Registry of the Republic of Panama in the file number 411071.

Forests For Friends AG² in Switzerland is the owner of the project FFF.

Brinkman y Asociados Reforestadores de Centro America Sociedad Anonima (BARCA S.A.) is also registered in the Public Registry of Panama, in the file 547844, Roll 1 and image 1051799. The legal representative is Mr. Diego Dipieri, who also has wide administrative experience of the projects of BARCA in Costa Rica.

FFF and Barca S.A. signed a work contract in December 2006. The contract is for a 20-years period (expires in 2026) and establishes that Barca S.A. is committed to maintain and protect the Teak plantations; besides, it must meet the “re-establishment” of the FSC certification and to keep it as long as the contract with FFF is active.

The contract establishes a management budget for the period, where it establishes quarterly payments until 2026. The funding comes from investors who, for the most part, where investors in the Prime Forestry project and now are shareholders of FFF.

C. Future Production:

In October and November 2006 the study “Rapid Site Teak Performance Assessment (RSTPA), in Panama for Forests For Friends” was made, and it consists of a detailed study of the soil in the plantations, the Teak growth, the productivity and other silvicultural aspect of the plantations. This study was made by Barca S.A. before signing the contract with FFF.

Among the projections, it is estimated an accumulated wood volume of 46% for a high production of 280 m³/ha at 20 years, and an accumulated volume of 54% for a low production of 225 m³/ha at 21 years.

From these projections are excluded the 533.63 ha that formed part of the plantations with a very low productivity during the management period of Prime Forestry. For 2007 are reported a total of **1,439.64 hectares** of Teak plantations to be managed (See Chart No. 2).

D. Legal Status of the Properties in Panamá:

All the properties proposed for the expansion of the certificate are under the regimen of private property and are registered under the name of Forests For Friends Panama, Inc. and under the Legal Representation of Mr. Jose Silva.

There is a total area reported for Panama of **3251.51 hectares** (Chart No. 1)

² Information in the website: www.forestsforfriends.com

Chart No. 1. Legal Inscription and Area of the FFF Properties in Panama 2007

Finca Number	Legal Inscription Number					Total Area, ha
	Volume	Roll	Foliate	Document	Inscription	
SAN JUAN, CHIRIQUÍ						
131	6		278			25.80
269	12		98	127520		49.80
850	41		56			42.06
908	41		404			19.96
3186	126		482			34.40
3667	146		224			7.76
37310		19068		6		3.93
421	21		2	546471		11.08
2691	114		26	527520		25.09
1442	64		92	31321		56.19
1450	64		140	31321		14.28
1460	64		200	31321		38.11
1805	78		252	31321		49.13
203	10		208	39098	2	12.72
307	12	30033	326	4	1	4.48
704	35		188			24.41
497		1		1	1	20.82
3845	153	30033	288	3	1	15.08
34828						8.29
239	10		428			22.80
337	18		2			9.48
24752				1	1	26.80
256	12		22	174255		19.54
1282	60	128	635356			0.23
39467		22152		1	1	20.27
DP-4X-09-11868						16.80
TORIO, VERAGUAS						
18593		16942		9		40.64
18594		16942		9		101.24
18595		16942		9		20.75
44192				740524		5.40
44193				740527		98.95
ZAPOTAL, VERAGUAS						
19724		19537		7		97.34
19730		19374		8		26.87
19731		19724		8		58.11
19732		19734		8		2.37
19733		19744		8		1.17
28847		9506		220219		0.30
45738				830108		61.53

37908				600631		86.99
SAN LORENZO, CHIRIQUÍ						
12569	1125		414			4.29
64277						65.22
15019	27262		3			151.48
15015	1496		1343			2.94
18686	1718		330			284.52
47474						100.69
11588						283.00
BOCA CHICA, CHIRIQUÍ						
8524	810		378			16.20
4093	320		22			136.56
1079	115		212			70.50
CAÑAZAS, PANAMÁ						
235526		1		624867		100.25
235529						99.66
AGUA FRÍA, DARIÉN						
872		30516		2	1	46.28
891		31351		11	1	48.19
874		30883		13	1	49.27
887		31189		11	1	48.46
889		25357		9	1	48.58
883		31159		14	1	48.52
876		1		15	1	48.35
836		30883		3	1	49.17
875		1		14	1	49.26
2553				1115912		19.55
TORTÍ, PANAMÁ						
197464				165182		52.52
167101		25283		18	1	41.93
167297		25377		14	1	0.69
210662		1		310237	1	27.92
167259		25357		12	1	37.16
210270		1		306207	1	39.65
167255		25357		11	1	42.61
270645				1129784		57.12
Total						3,251.51

E. Area under forest management, and proposed area to certificate in Panama:

After excluding the 533.63 hectares of Teak, the total area proposed for certification by FFF will be of 2,717.88 hectares. (See Chart No. 2).

Chart No. 2. Summary of FFF fincas in Panama, Total Area and Proposed Area to certify.

Finca Name	Plantation Year	Area (hectares) by land use					
		Plantations	Prot. A./ Natural F.	Infrastructure	Other uses *	Total area (ha)	Proposed Area to certify (ha)
Boca Chica	2004	138.96	63.83	16.37	4.10	223.26	219.16
San Lorenzo	2003	226.65	403.58	18.70	243.21	892.14	648.93
San Juan	2004	399.33	121.88	19.17	38.93	579.31	540.38
Torio	2002 and 2005	86.40	293.71	18.54	203.01	601.66	398.65
Torti	2005	213.74	48.32	12.06	25.48	299.60	274.12
Cañazas	2005	132.58	61.72	5.61		199.91	199.91
Agua Fria	2005	241.98	175.06	19.69	18.90	455.63	436.73
Total		1,439.64	1,168.10	110.14	533.63	3,251.51	2,717.88

(*) Includes Teak plantation areas in bad developing shape and other sites where there are not forest management activities.

2.3. Stakeholder issues

In general, as a result from the interviews, the field workers expressed that their direct employer is Barca S.A. BARCA has signed employment contracts with them and they have received nice treatment from the managers, technicians and foremen. Also, they mentioned that have been informed what their responsibilities and rights are according to the Panamanian Labor Law. They know about the working days and weeks, the social security, the minimum wage, the vacations, and the payment of the thirteenth month. Besides, they expressed that the wage is paid on time and that the company offers them the safety equipment when needed. In some cases it provides them with safety shoes and allows the employees to have agricultural crops in the company's land. In most cases the workers commented that they have received talks regarding: labor, use of agrochemicals, first aid and use of fire extinguishers. Besides, they do not know about conflicts between the company and the neighbors.

During the interviews made to the staff of the National Authority of the Environment (ANAM, by its acronym in Spanish), the person in charge of the agency at Torti in Darién, informed that the follow up to the Prime Forestry former projects now BARCA projects' are made directly by the staff of ANAM East Panamá. This agency (CHEPO), does not know of any claim made by labor non-compliances or contaminations, and does not know much about the project. In general, other staff of ANAM interviewed mentioned that the company follows the reforestation plan and that the species have good growth, there is a good treatment and there is good coordination with the technicians. The person in charge of the properties title said that all the fincas are legally in order.

On the other hand, the person in charge of the health center at Torti mentioned that the company has donated a mowing machine for the grass maintenance (a similar machine was donated to the firefighters, to the national police and to other agency), also mentioned that does not know much about the project and it is important to keep communicated.

Other staff interviewed of the Forest Service and the section of Climatic Change of ANAM at Panama City, mentioned that the relationship with Barca S.A. and FFF is recent and they do not

know of forests or environmental conflicts. They pointed out that the company has a PIN (Project Idea Note) for the funding for CO₂ capture through a CDM project (Clean Development Mechanism). They expect to execute an integrated negotiation with other projects at national level (Futuro Forestal, Inter-oceanic Channel Authorities) to obtain funds from the World Bank.

2.4. Conformance with applicable corrective action requests

The section below describes the activities of the certificate holder to address each applicable corrective action issued during previous evaluations. For each CAR a finding is presented along with a description of its current status using the following categories. Failure to meet CARs will result in nonconformances being upgraded from minor to major status with conformance required within 3 months with risk of suspension or termination of the SmartWood certificate if Major CARs are not met. The following classification is used to indicate the status of the CAR:

CAR Status Categories	Explanation
Closed	Certified operation has successfully met the CAR and addressed the underlying nonconformance.
Open	Certified operation has <u>not met</u> the CAR; underlying nonconformance is still present. CAR becomes a Major CAR with a 3 month deadline for conformance

Evidence to comply with the corrective actions requested previously by SmartWood to Prime Forestry was not directly reviewed; being this an expansion audit of the group certificate of Barca S.A. However, after the complete revision of the Interim Standards for Assessing Forest Management in Panamá and the findings for each criterion, new corrective actions were requested (see the following section).

2.5. New corrective actions issued as a result of this audit

Note: The numbering starts at CAR 03-07 since CAR 01-07 and CAR 02-07 were issued as a result of the 2007 annual audit.

CAR 03-07		Reference to Standard: 4.4.1, 4.4.2
Non-conformance		Description of non-conformance: In the Panamanian projects there are not specific indicators to carry out the social impact assessment of the forest operations. Neither there is a periodic consultation process with the communities and other stakeholders.
Major	Minor <input checked="" type="checkbox"/>	
Corrective Action Request: BARCA S.A. shall select practical and simple indicators to assess the social impact resulting from the forest management activities of the FFF project. Besides, it shall develop a consultation process or mechanism with the communities and other stakeholders in Panama, in order to facilitate the assessment of the social impact resulting from the project activities in the Forests For Friends, Inc. areas through time.		
Timeline for conformance:		Next annual audit.

CAR 04-07		Reference to Standard: 4.4.3.
Non-conformance		Description of non-conformance: In the case of the projects in Panama there has not been designed an Environmental Education Plan for the neighboring communities to the FFF projects, which in turn is an input for the socio-economic assessment made.
Major	Minor <input checked="" type="checkbox"/>	
Corrective Action Request: BARCA S.A. shall design and execute an Environmental Education Plan for the communities and schools close to the fincas of the project. Special attention must be paid to the execution of this plan in the neighboring communities to the fincas at Darien in order to demonstrate that the inputs obtained from the socio-economic assessment are used to improve the FFF project management.		
Timeline for conformance:		Next annual audit.

CAR 05-07		Reference to Standard: 6.1.1
Non-conformance		Description of non-conformance: In the Panamanian projects there are not specific indicators to assess the environmental impact.
Major	Minor <input checked="" type="checkbox"/>	
Corrective Action Request: BARCA S.A. shall design and execute a methodology to assess the environmental impacts resulting from the forest project developed in the plantations in Panama (FFF projects).		
Timeline for conformance:		Next annual audit.

CAR 06-07		Reference to Standard: 6.5.1
Non-conformance		Description of non-conformance: In the Panamanian projects the written guidelines to control the soil erosion are not updated.
Major	Minor <input checked="" type="checkbox"/>	
Corrective Action Request: BARCA S.A. shall develop written guidelines and keep them updated, for the soil erosion control in the roads of the FFF projects. The elements of the guidelines shall be in accordance with the management activities to execute (thinning, for instance).		
Timeline for conformance:		Next annual audit.

2.6. Audit observations

Observations are very minor problems or the early stages of a problem which does not of itself constitute a non-conformance, but which the auditor considers may lead to a future non-conformance if not addressed by the client. An observation may be a warning signal on a particular issue that, if not addressed, could turn into a CAR in the future (or a pre-condition or condition during a 5 year re-assessment).

Note: the numbering starts at OBS 03-07 since OBS 01-07 and OBS 02-07 were issued as a result of the 2007 annual audit.

OBS 03-07	Reference Standard & Requirement: 4.4.3
Description of findings leading to observation: Some local people from the communities of Darien have expressed negative opinions about the forest management project. An Informative Plan has been designed to offer information to the neighboring communities about the FFF project and the forest plantation management activities of Barca S.A.	
Observation: The Informative Plan should keep on executing; especially in the communities of Darien, where there are negative opinions about the project.	

OBS 04-07	Reference Standard & Requirement: 8.5.1
Description of findings leading to observation: In the public summary, the information about the project's impacts is not written down.	
Observation: Once the impact assessment of the Barca S.A. project activities is made, the results should be incorporated in the project public summary (brochure and web site).	

3. AUDIT PROCESS

3.1. Auditors and qualifications:

Hugo Alvarez: Costa Rican, Forest Engineer with over nine years of experience in the forest certification field. He has conducted several forest management and chain of custody trainings, assessments and audits in Latin America. Currently, he is the SmartWood representative for Costa Rica and he is also an auditor of the Agricultural Certification Program of Rainforest Alliance. He participated in the Barca S.A. assessment of 2001 and the 2006 re-assessment, as well as several audits of the first certification period.

Milciades Samaniego: Panamanian, Forest Engineer with over 18 years of experience in the forest certification field. He has worked as Forest Engineer, Administrator, Consultant, Environmentalist and General Manger. He has been President of the Association of Forest Engineers and has made Forestry and Environmental related jobs for the National Authority of the Environment (ANAM), Program of Sustainable Development of Darien and the International Tropical Timber Organization (ITTO). Currently, he is the SmartWood representative for Panama and has done three annual audits of forest certification and one SLIMF assessment.

3.2. Audit schedule

Date	Location /Main sites	Principal Activities
August 27, 2007	Central Office of Barca in Panama City	<ul style="list-style-type: none"> • Trip of the audit team to Panama City. • Opening meeting. • Review of technical information of the project. • Interviews with technical staff of the project.
August 28, 2007	Central Office	<ul style="list-style-type: none"> • Continues the review of technical and administrative documentation (payrolls, social security payments receipts) of the project. • Interviews with the administrative staff of the project. • Interviews with stakeholders in Panama City.
	Fincas at Darien	<ul style="list-style-type: none"> • Field trip to fincas to observe the sanitary status and the

		<p>implementation of the maintenance and management labors in the forest plantations (silvicultural treatments, measurement of the permanent sampling plots –PSP, fire prevention, soil conservation); status of roads, protection zones, and the warehouses.</p> <ul style="list-style-type: none"> • Interviews with workers and other stakeholders.
August 29, 2007	Fincas in Veraguas	<ul style="list-style-type: none"> • Field visit to the fincas to observe the sanitary conditions and the execution of maintenance and management activities in the forest plantations (silvicultural treatments, measurement of the permanent sampling plot –PSP-, fire prevention, soil conservation); condition of roads, river protection zones and condition of warehouses. • Interviews with workers and other local stakeholders.
August 30, 2007	Fincas in Chiriqui	<ul style="list-style-type: none"> • Field visit to the fincas to observe the sanitary conditions and the execution of maintenance and management activities in the forest plantations (silvicultural treatments, measurement of the permanent sampling plot –PSP-, fire prevention, soil conservation); condition of roads, river protection zones and condition of warehouses. • Interviews with workers and other local stakeholders.
August 31, 2007	Barca Office at Horconcitos	<ul style="list-style-type: none"> • Documentation review. • Closing meeting. • Return trip of the audit team.
<p>Total number of person days used for the audit:5 = number of auditors participating 2 times total number of days spent for the audit 10</p>		

3.3. Sampling methodology:

During the present audit nine fincas of the Forests For Friends Panama, Inc. project were visited in the field. The fincas are located in four different provinces of Panama, the details are as follows:

Province of Panama: Finca Cañazas, Finca Torti.
Province of Darien: Finca Agua Fria.
Province of Veraguas: Finca Torio, Finca Zapotal.
Province of Chiriqui: Finca San Juan, Finca Servidumbre San Juan, Finca San Lorenzo, Finca Boca Chica.

The previous selection represents 100% of the fincas (3,251.51 total hectares) in property of FFF.

Currently, the nine fincas are legally managed by Brinkman y Asociados Reforestadores de Centro America (Barca S.A.) and the intention is for them to be included in the scope of its FSC group forest certificate, as Forest Resource Manager. For these reasons, the audit team prioritized the documentation review (paper and digital) and the interviews of its technical and administrative staff at the offices located in Panama City and the regional offices of Horconcito at the Province of Chiriqui. Also, the field staff and representatives of ANAM in the city and the regions where the project is located were interviewed.

Last, the auditors assessed the company using the current version of the certification standards (see details of findings in Appendix III).

3.4. Stakeholder consultation process

Stakeholder type (i.e. NGO, government, local inhabitant etc.)	Stakeholders notified (#)	Stakeholders consulted or providing input (#)
ANAM (Environment authorities)	2	4
PRONAT (national center of certification)	1	1
Health center	1	1
Mariato Municipality	1	0
Futuro Forestal S.A. (reforestation company)	1	0

3.5. Changes to Certification Standards

Forest stewardship standard used in audit:	Rainforest Alliance/SmartWood Interim Standards for Assessing Forest Management in Panama (version 2.1, August 2007).
Revisions to the standard since the last audit:	<input checked="" type="checkbox"/> No changes to standard. <input type="checkbox"/> Standard was changed (detail changes below)
Changes in standard:	Not applies, there are no changes
Implications for FME:	Not applies - there are not new requirements